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C O N F I D E N T I A L SECTION 01 OF 03 MANILA 002277

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SUBJECT: THE DEPUTY SECRETARY'S MAY 5 MEETING WITH
PRESIDENT ARROYO

Classified By: Acting Political Counselor Joseph L. Novak
for reasons 1.4 (b) and (d).

1. (U) May 5, 2005; 10:00 a.m.; Manila, the Philippines.
2. (C) Summary: President Arroyo underscored to the Deputy Secretary on May 5 that she considered the U.S. to be the

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Philippines' closest partner in dealing with security, economic and other issues. She confirmed that her government strongly supported efforts to combat terrorism and was moving forward with anti-terrorism legislation. She stated her support for negotiations with the Moro Islamic Liberation Front (MILF) but remarked that the MILF's division into different factions made negotiations difficult. The Deputy Secretary noted the importance of defense reform in the fight

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against terrorism. Arroyo agreed and asked that the U.S. provide similar support for the Philippine National Police (PNP). The Deputy Secretary said we would look into this. Arroyo said she was pleased with her government's economic reforms, but admitted that they were painful for much of the populace.

3. (C) Summary (Continued): Turning to regional and international issues, Arroyo said Chinese President Hu Jintao's recent visit had gone very well. It was her view that China wanted stability in the region and knew that it had responsibilities that came with its fast-growing economy. The GRP remained concerned about Burma taking over ASEAN's rotating chairmanship and believed that Burma would defer due to opposition from other ASEAN countries. Arroyo said the GRP maintained good relations with Indonesia and she was impressed with President Yudhoyono. The Deputy Secretary asked for Philippine support in the UN Security Council regarding Sudan and Darfur. Arroyo replied that the U.S. could count on continued strong support. The Deputy Secretary also briefed President Arroyo about progress in

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Iraq. End Summary.

4. (C) President Arroyo underscored to the Deputy Secretary that she considered the U.S. to be the Philippines' closest partner in dealing with security, economic and other issues. She remarked that the millions of Filipino-Americans were a living example of our enduringly close ties. Relations had improved since she and President Bush had taken office in 2001, and September 11 in particular had drawn the two countries together. The Deputy Secretary expressed appreciation to the GRP, noting that the U.S. wanted to continue to work closely with the Philippines. He was going to visit Corregidor later in the day to underline the lasting, historical nature of the U.S. partnership with the Philippines.
5. (C) The Deputy Secretary noted that the GRP had made counter-terrorism a high priority and he asked about progress in that area. Arroyo said one of her government's highest priorities is to enact comprehensive anti-terrorism legislation, and the GRP now believed it had enough support in the House and Senate to move it forward. She emphasized that there would be no compromise on the issue of terrorism, but she added that terrorists had been embedded in Mindanao long before she had become president. The GRP was doing its best to root them all out and destroy their enclaves. Departing from the standard Philippine view that the New People's Army (NPA) posed the most serious threat to the country, Arroyo pointedly declared that destroying the JI (Jemaah Islamiyah) was its highest priority. She warned, however, that the war against terrorism would be a protracted struggle. For example, many terrorists were freely using sea routes in the region to transit from country to country. This ease of access had to be addressed.
6. (C) The Deputy Secretary asked about the MILF and the situation in Mindanao. Arroyo responded that the MILF was not a cohesive group, which made negotiations difficult. Murad Ebrahim, the MILF leader, had support from many in the group, but not from everyone. Some elements of the MILF were

cooperating with the JI. Nonetheless, negotiations with the MILF would draw the more moderate members of the MILF towards a more peaceful solution, and the recent talks in Kuala Lumpur on such issues as ancestral domain had gone well. NSC Advisor Gonzales remarked that he was both optimistic and not optimistic about the talks. He noted that he was worried that the MILF might take an intransigent position regarding ancestral domain, which would be difficult to reconcile. Arroyo said the GRP would continue war with those MILF elements who coddled the JI, and the GRP had communicated that to Murad. The President thought that most people in Mindanao wanted peace. There were elements, however, in some areas where there has been conflict who were hawkish, verging on "anti-Muslim." These elements really did not support negotiations with the MILF, fearing that the government might give in on too many issues. As the elected president with five years left in her term, however, Arroyo said she was no longer too worried about her political situation and wanted to do the right thing. Overall, the GRP would continue to deploy a comprehensive political, military, and development strategy to defeat terrorism. Focusing excessively on any single aspect of this strategy would not succeed. The Deputy Secretary agreed that such a comprehensive strategy was

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needed -- the U.S. knew that well in regards to its own engagement in Iraq and elsewhere.

17. (C) The Deputy Secretary, noting that the issue had been discussed in an earlier meeting (septel), cited the success of defense reform in the Philippines. Arroyo agreed and asked that the U.S. provide similar support for reform and modernization of the Philippine National Police (PNP). She said she believed that the same template -- including a baseline assessment -- that had been used for defense reform would also work for the PNP. The Deputy Secretary replied that he would look into how we could assist in this area. He commented that it was also important that the GRP give PNP reform a real push.

18. (C) The Deputy Secretary asked about the government's economic reforms. Arroyo said her administration was moving forward with a comprehensive package and having success in doing so. She believed, for example, that her administration's proposed two percent rise in the Value Added Tax (from 10 percent to 12 percent) would win legislative approval soon. However, the reforms were difficult and had proved painful for many people. Her popularity, in fact, had suffered and she had to walk a tightrope at times. Asked about tax revenues, Secretary Purisima admitted that enforcement was a problem. Another problem was that many export and other enterprises were duty free and not subject to tax.

19. (C) The Deputy Secretary asked about Chinese President Hu Jintao's April 26-28 visit. President Arroyo offered her view that China wanted stability in the region. Hu Jintao indicated that China supported the Six-Party Talks and constructive engagement with Taiwan. Queried about whether China had given any hints regarding its fixed currency exchange rate, she replied that she had little information on where the Chinese stood on that, but Hu Jintao knew that China had responsibilities that came with its fast-growing economy. Asked about China-Japan tensions, the President said she believed that the two countries wanted to reconcile. Prime Minister Koizumi's recent comments had been eloquent and hopefully would calm down the situation. China appeared to have been worried that anti-Japan protests might get out of hand.

10. (C) The Deputy Secretary commented that the U.S. wanted to see ASEAN strengthened further, and that it would be a serious setback for our ability to engage if Burma assumed the rotating chairmanship of the organization in 2006. Arroyo said the GRP shared this view and had always been on the front lines supporting democratic change in Burma. The Deputy Secretary said he had understood from the Thais that Burma seemed inclined to defer taking the chairmanship.

11. (C) Asked about Indonesia, Arroyo said she was very impressed with President Yudhoyono, although she did not know him well. Based on her experience during the recent Asian-African Summit, Indonesia appeared to be going through a very difficult time in the aftermath of the tsunami. The Deputy Secretary remarked that he would be visiting Aceh Province to check on the relief efforts there. Arroyo indicated satisfaction with the exchange of information between the GRP and the Indonesian government in the area of counter-terrorism.

12. (C) The Deputy Secretary noted that the U.S. considered the Philippines' role on the UN Security Council (UNSC) to be important. The U.S. hoped to be able to call on continued Philippine support on Darfur. There appeared to be signs that perhaps the political dynamics in Sudan were turning positive and that that could help the situation in Darfur.

Arroyo replied that the GRP would continue to support the U.S. at the UNSC.

¶13. (C) The Deputy Secretary shared some impressions from his mid-April visit to Baghdad and Fallujah. In the aftermath of the January elections, a real political process was taking hold. Further political, military and economic engagement by the U.S. and other international partners was crucial. A comprehensive approach that included political, economic and security elements will be necessary to defeat the insurgency in Iraq and put the country on a long-term path. The U.S. and Europe would host a conference on June 22 to show support for the new, democratically-elected government of Iraq. There had been many inefficiencies built into the Iraqi economy over the years by Saddam Hussein's regime and much work was needed to improve the economic situation.

¶14. (U) Participants:

U.S.:

The Deputy Secretary
Ambassador Francis J. Ricciardone
EAP Deputy Assistant Secretary Marie Huhtala
D Executive Assistant Ross Wilson
D Special Assistant for Outreach and Public Affairs
Christine Davies
D Personal Assistant Lisa Martilotta
Public Affairs Officer Adam Ereli
D Special Assistant Christian Castro
Deputy Chief of Mission Joseph A. Mussomeli
Political Counselor Scott D. Bellard
Deputy Political Counselor Joseph L. Novak (Notetaker)

Philippines:

President Gloria Macapagal-Arroyo
Executive Secretary Eduardo Ermita
Defense Secretary Avelino Cruz
Finance Secretary Cesar Purisima
Trade and Industry Secretary Juan Santos
NSC Advisor Norberto Gonzales
Press Secretary and Presidential Spokesperson Ignacio Bunye
Acting Secretary of Foreign Affairs Edsel Custodio
Assistant Secretary for American Affairs Ariel Abadilla

¶15. (U) D Staff has reviewed has reviewed this telegram.

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